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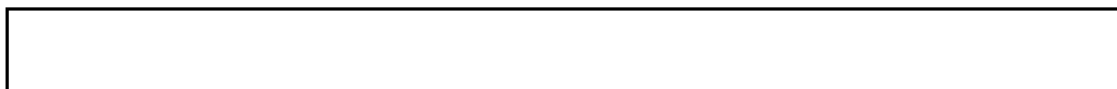
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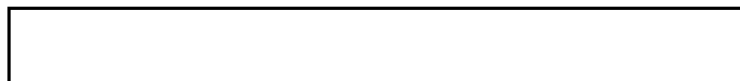
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\*PORTUGAL: Prime Minister Caetano may be forced to choose sides in the bitter feud over the country's overseas policy. [REDACTED]

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[REDACTED]

General Costa Gomes, met with the US defense attaché yesterday and admitted the situation was tense and unresolved.

Earlier reports had indicated that Costa Gomes and his deputy, General Spínola, had been exiled to island posts. It now appears that it was some junior officers--presumably the leading troublemakers--who were transferred to the Azores or Madeira.

Spínola is a leading advocate of greater autonomy for Portugal's overseas territories, and his recent book outlining the rationale for such a policy has sent shockwaves through the Portuguese establishment. Spínola argues that Portugal's current policy isolates it from the rest of the world, is too expensive, and, as a practical matter, is not working. His thesis has found considerable support within the officer corps, particularly among junior officers, who are tired of repeated African tours. Reformist circles also are backing Spínola, as are pragmatists, who are concerned over the large percentage of the national budget being spent on defense.

Caetano has been trying to appease both sides in the dispute, but this type of compromise no longer seems satisfactory. A cabinet reshuffle and changes in military commands may be necessary to put the country back on a unified course.

Meanwhile, the armed forces have been placed on alert because of "internal disciplinary problems," according to a press release quoting an official government spokesman. The alert began on March 9, according to this account, and all troops have been confined to their barracks. [REDACTED]

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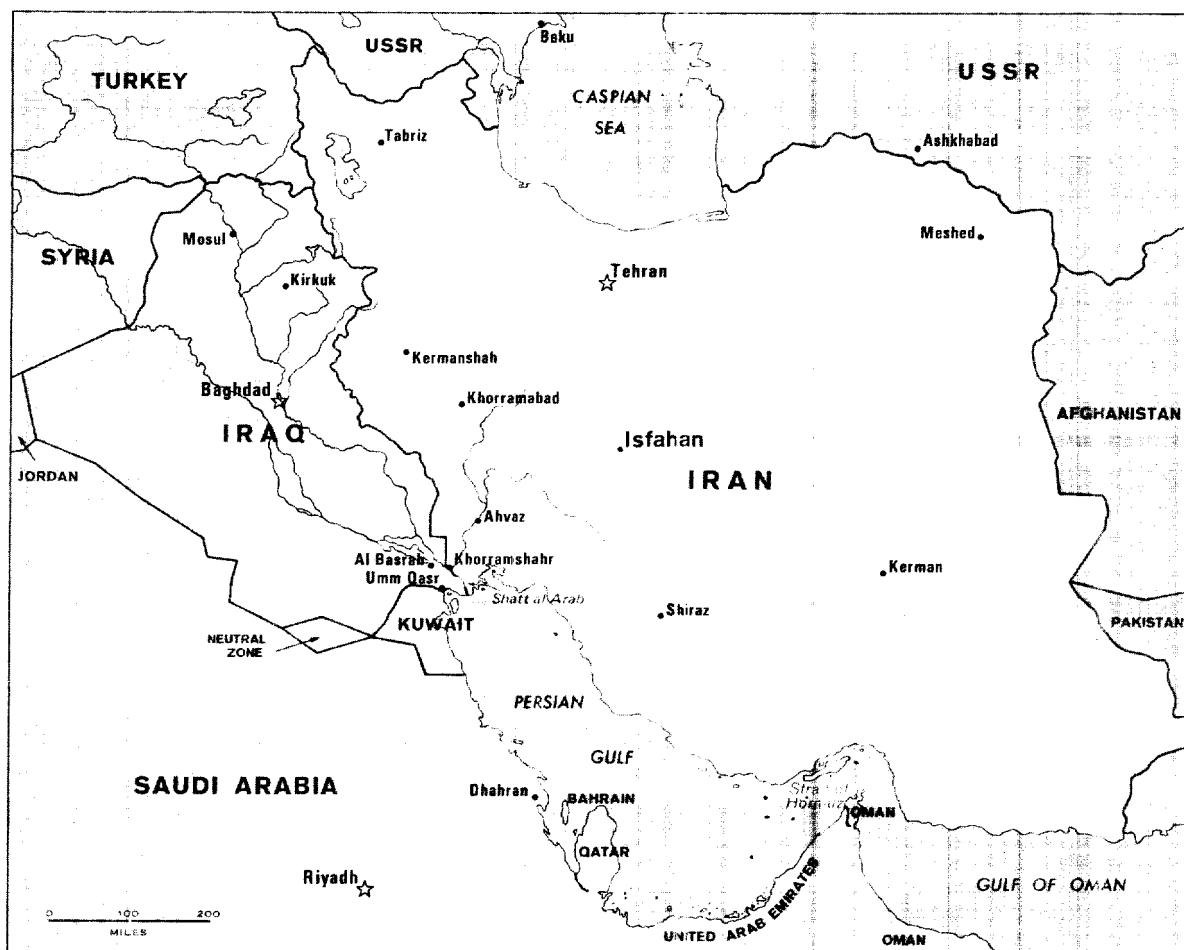
\*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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IRAN: A high-ranking Iranian official has informed the US Embassy that Tehran is near agreement with three West German firms on construction of a tank-refitting facility near Isfahan, in west-central Iran. The official stated that the Iranians intend to use the facility to refit Iran's US-built M-60 and M-47 tanks with new main guns. The M-60s, which now carry 105-mm guns, will be equipped with 120-mm guns, and the M-47s, which have 90-mm guns, will be fitted to handle 105-mm weapons.

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\*IRAQ: The Iraqi Government moved yesterday to implement its own version of autonomy for Iraqi Kurds. The government's plan, which has not been accepted by the Kurds themselves, provides for only limited self-government and covers only part of the area where the Kurds claim they are a majority of the population.

Isolated clashes between government forces and Kurdish rebels have occurred recently. Both sides are highly mobilized, however, and heavy fighting may break out at any time if the government pushes ahead with its plan for the Kurdish areas.

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EC-CEMA: The EC intends to reiterate publicly the status of the community's relations with CEMA, its East European "counterpart," following Soviet allegations that the EC has not responded to a proposal made last summer by CEMA Secretary General Fadeyev that the two groups establish contact. At this week's session of the European Parliament, EC Commission Vice President Soames will reaffirm the community's willingness to engage in contacts with CEMA.

CEMA has never acknowledged the EC reply delivered to Fadeyev last September in Moscow by the Danish ambassador. Commission officials are uncertain whether the Soviet attitude is the result of a genuine misunderstanding or of reluctance by CEMA to bestow de facto recognition on the EC. They hope that Soames' statement will demonstrate EC interest in CEMA, while reminding the Moscow-led group that the ball is in its court. At an EC Council meeting last week, Soames suggested that Council President Scheel might be asked to repeat the invitation to CEMA if it looked like the impasse was going to continue.

The EC has established January 1, 1975, as the date after which new trade agreements between the EC and Communist countries will have to be negotiated by the Commission in the name of the community. The EC has not established a common policy for such agreements, however, and the thorniest problem is likely to be whether, and how, to include the existing long-term "cooperation" agreements under a common commercial policy. In discussing bilateral cooperation agreements between EC members and CEMA affiliates, Soames has stressed the importance of adopting a procedure for notification and consultation within the community. Such a procedure would be designed to guarantee compatibility between bilateral agreements and community policies, as well as to prevent situations in which EC members bid against one another for trade with CEMA countries.

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Cooperation between the EC and CEMA will in any case have to remain at a very general level. A Commission study presented to the Council by Soames describes CEMA as an organization that has no supranational powers and acts almost exclusively between its member states rather than with the outside world. This view of CEMA reflects, in part, the reluctance of the EC to accord the Moscow-led organization a greater measure of recognition.

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PHILIPPINES: Food shortages may develop again this year, despite official predictions of record crops.

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[REDACTED]

[REDACTED] After the decline in available food supplies last year, additional food shortages would further erode confidence in the regime.

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Muslim insurgency, natural calamities, fuel shortages, and government programs that have diverted fertilizer to small, less efficient producers are reported to have caused the rice and corn harvests in Mindanao to fall far below estimates. As a result, Mindanao will not only be unable to ship substantial amounts of corn to Luzon and Visayas in the lean months, which begin in April, but will still require rice shipments from the north.

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[REDACTED]

government estimates claiming a one-third increase in the production of both rice and corn for the crop year ending in June are probably exaggerated. [REDACTED]

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[REDACTED] there has been some conversion of land to export crops, particularly in Mindanao, which may have adversely affected food-grain output. Conversions probably are attributable as much to efforts by landlords to avoid the government's land reform program, which applies only to land planted in rice and corn, as to the increased attractiveness of raising export crops. Such conversions may have undercut the government's drive to bring more land under cultivation for rice and corn production.

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Rice prices, although well below highs reached in September, declined less than expected after the recent harvest, indicating that supplies are still tight. High prices undoubtedly reflect some rebuilding of depleted stocks after last year's crop failure.

Fertilizer supply prospects now seem to be improving, but unless deliveries arrive in time for the major planting of rice in June, substantial food-grain imports may be required to avert serious shortages later in the year. Imports of food grains will be difficult to secure in the tight world markets this year. [REDACTED]

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FOR THE RECORD

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Ghana: Representatives of Ghana and ten Western creditor nations, including the US, opened what may be the final round of negotiations yesterday in Rome to find a formula for rescheduling the large debt Accra incurred under former president Nkrumah. The first direct talks last December ended in an impasse, primarily over the rate of interest to be charged. Ghana's creditors two years ago suspended plans for new economic aid to Accra, pending a debt settlement.

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